

# The Third Crisis Accelerates the Integration of Asia

By YAMASHITA Eiji

I do not agree with Japanese Prime Minister Aso's recent remarks that the dollar-based currency system should be maintained. The current financial crisis is likely to shake the dollar-based currency system. For Japan, it is high time to move forward on the multipolarization of key currency system. Besides, it is quite absurd for Japan to propose at this stage to offer 100 billion dollars to the IMF, which is so old and "feudal" an organization that only the United States can exercise the veto in its Executive Board Meeting. The United States is like a feudalistic Lord in the IMF. Even if such a proposal is to be made at all, it should be in exchange for a severe condition that the IMF's present governance be drastically reformed. Particularly, an outrageous 85% of the qualified majority voting in the IMF Executive Board Meeting should be reduced to a normal level, such as two-thirds or 70%. It will be detrimental to Japan's national interest if Japan should cling to its diplomatic footing of the past with the exclusive devotion to the alliance with the United States. Asia, including Japan, and the United States are not, and should not be, in the same boat. It is proved conclusively by the current financial crisis which has originated in the United States.

The integration of Asia was accelerated by overcoming two major crises that struck the area. The first was the sharp increase in the foreign direct investment to ASEAN countries by Japanese companies, which took place in corresponding to the very rapid appreciation of the yen after the Plaza Accord in 1985. This triggered the creation of very dense cross-border production networks in East Asia which have closely connected different stages of production processes in manufacturing industries. That is to say, the informal economic integration has already been established in East Asia. Such production and distribution networks are truly valuable assets of the economy in the area. The second was the Asian currency crisis in 1997, which propelled the formal integration process of Asia, based upon the agreements among the governments concerned in the area. Chiang Mai Initiative (CMI) of May 2000, in particular, ushered in a new stage of this line of integration.

The current US-origin financial crisis could become the catalyst for a trend of regional integration in many parts of the world, such as in Europe, Asia, South America and the Middle East in order to protect themselves from external shocks. Marked move should naturally be seen in the financial sector. There are already such moves in this direction as to multi-lateralize CMI, which has already been agreed upon, and to set up a standing secretariat of CMI in order to introduce surveillance mechanism for the regional economy. While the Ministry of Foreign

Affairs (MOFA) and the Ministry of Economy, Trade and Industry (METI) of Japan have recently placed emphasis on East Asia Summit (EAS) comprising 16 countries, the Ministry of Finance (MOF) will play a central role in Japan when it comes to those moves in the financial sector, which should center on the framework of ASEAN+3 (APT), comprising 13 countries.

Although the momentum of the regional integration of Asia has been slowed down since 2005 with two regional frameworks of APT and EAS going side by side, thereby dissipating energy of the integration, it is expected that the current crisis put an end to this stagnation period and the momentum will be regained for the regional integration of Asia. The last thing the Japanese government should do is, of course, to impede this move in the right direction.

**(This is the English translation of an article written by Mr. YAMASHITA Eiji, Professor of Osaka City University, which originally appeared on the BBS “Hyakka-Somei” of CEAC on November 30, 2008)**